FDIC

Federal Deposit Insurance Corporation
Washington, D.C. 20434 Office of Inspector General

DATE: August 25, 1997

TO: Dennis F. Geer
Deputy to the Chairman
and Chief Operating Officer

FROM: Stephen M. Beard
Director, Congressional Relations
and Evaluations

SUBJECT: *Renovation of Virginia Square* (Evaluation Report No. 97-008)

The Office of Congressional Relations and Evaluations has completed a review of an anonymous Hotline complaint received by the Office of Inspector General on November 27, 1996. The complainant expressed concerns that $1.5 million in cost overruns were incurred in renovating Virginia Square. The objectives of our review were to determine whether (1) FDIC effectively planned and managed the contract for the General Contractor that provided tenant improvement services at Virginia Square, and (2) the remodeling and improvements were necessary and within Corporate standards.

SUMMARY OF REVIEW

Our review confirmed that the actual cost of the General Construction Contractor, Sigal Construction Corporation (Sigal), exceeded the original amount authorized because the original amount was based on a preliminary set of drawings and additional work requirements were added after the contract was approved. These additional Sigal work requirements and their associated costs were justified in an October 29, 1996, request for additional expenditure approval submitted to the Deputy to the Chairman and Chief Operating Officer (COO). The original approved procurement requisition authorized $1,838,561 in expenditures. The COO approved the
October 29, 1996, request and a procurement requisition adding $973,439 in expenditure authority was executed to reflect the additional work. This requisition increased the total expenditure authority for the Sigal contract to a total of $2,812,000.

The request for expenditure approval also discussed various problems in monitoring and contract administration that contributed to the overage in the authorized expenditure amount. Our review
showed that the request adequately documented the management issues surrounding the increased costs.

We also determined that in addition to the Sigal contract, the Corporation incurred almost

$1.5 million in other contractor costs directly related to the renovation project, bringing the total cost to renovate and update the office building at Virginia Square to about $4.3 million. These additional contracts were not part of the Division of Administration (DOA) budget for Buildings and Improvements. Rather, the contracts were either budgeted for in other DOA line items or were part of the Division of Information Resources Management's (DIRM) budget. DOA did not inform senior management of the totality of contracts and costs involved in the project. In the case of Virginia Square, these additional costs were 52 percent of the construction contract. DOA officials explained that DOA has consistently used only the construction contract costs in computing the cost of renovations. If other contract costs, such as those for furniture, fixture, and equipment, cabling, and carpet, are usually a significant percentage of the construction contract for a renovation project--as was the case at Virginia Square--DOA should consider including those costs in reporting renovation costs. We believe that such information would be useful to senior management for decision-making; in particular, for approving office moves and renovations.

SCOPE OF REVIEW

In conducting our evaluation, we obtained and reviewed documentation and correspondence regarding the General Contractor described in the complaint. Such documentation included the Request for Proposals, Statement of Work, technical evaluation panel summaries, and the request for expenditure approval. We also identified and examined contracts or purchase order files for the project architect, system furniture installers, carpeting, and construction management that were related to the Virginia Square renovation. In addition, we reviewed weekly coordination meeting minutes and the package of materials used to conduct senior management briefings on the status of the renovation project. We also reviewed the FDIC *Procurement Policy Manual* dated September 30, 1993, the FDIC *Acquisition Policy Manual* dated November 15, 1996, and the Corporation's Delegations of Authority. Further, we discussed this matter with officials from ASB, CSB, and the Division of Information Resources Management (DIRM). Finally, we inspected the Virginia Square facilities.

We conducted our review between February 5, 1997, and May 27, 1997, in accordance with the President's Council on Integrity and Efficiency's *Quality Standards for Inspections.*

BACKGROUND

In April 1996, CSB recommended to the Administrative Committee that it was necessary to renovate Virginia Square to accommodate the consolidation of RTC and FDIC staff and other construction resulting from the Corporation's overall downsizing. This project was placed on a "fast track" because personnel in buildings with expiring leases needed to vacate those buildings by October 1996.

The contract for General Construction Contractor services was competitively awarded to Sigal in June 1996. The contract placed Sigal in the role of general contractor, responsible for accomplishing the renovation project. The renovation plans were prepared by AI/Boggs, an architectural firm that CSB contracted with in February 1995 to provide architectural, engineering, and move coordination services for the merger of the RTC and FDIC personnel in the Washington, D.C., metropolitan area. CSB also had contracts with Systems Connection to provide installation/deinstallation of systems furniture and Cushman and Wakefield to provide construction management and oversight of the Virginia Square renovation project. DIRM contracted with Texel Corporation to provide telecommunications and other support services.

RESULTS OF REVIEW

General Construction Contractor Cost Increased Significantly Due to Added Work Requirements

The anonymous complainant alleged that the Sigal contract, originally awarded for $1.8 million ($1.2 million [sic], plus $500,000 for change orders), was modified after the fact to allow for an additional $973,439 in cost over-runs. Thus, the total contract cost allegedly was $2,812,000. The complainant believed that ASB negotiated a $500,000 reduction in Sigal's initial cost overrun of $1,473,439, to keep the modification below delegation levels that would have brought it to the Chairman's attention.

Sigal was to provide tenant improvement services for the interior renovation of floors one through seven of Virginia Square that included, but were not limited to: painting, demolition of existing partitions, erection of new partitions, installing doors and frames, creating millwork, reworking as needed of HVAC and Fire Sprinkler systems, and providing as required electrical and cabling services. The original approved procurement requisition authorized expenditures of $1,320,748 and an additional $517,813 for contingencies and carpet installation. The solicitation of proposals required the offerors to submit a firm fixed price for the sixth floor based on complete construction drawings. Estimated prices were requested for each of the remaining floors based on preliminary space plans showing new walls and demolition. The offerors were also required to furnish a unit price schedule for carpentry, electrical, mechanical and other construction related services that would be used to price the remainder of the construction.

The initial estimate submitted by Sigal based on preliminary designs was ultimately too low. Although renovation work began during June 1996, Sigal did not submit its first bill, despite FDIC requests, until October 1996 when the major portions of the renovation were complete. Sigal's October 1996 bill for the entire renovation totaled $3,326,120. This bill was $1,487,559 higher than the original approved procurement requisition. The actual bill was higher because the preliminary estimate did not include all work shown on the subsequent detailed designs nor did it cover additional requirements identified by DIRM after contract award. DIRM's new requirements included the installation of Windows 95, which involved upgrading all existing cabling. Also, CSB had not been advised of the magnitude of the work required for the Poller Service Room, the Research Laboratory, and the relocation of the Console Operations Center.

After Sigal submitted its $3,326,120 bill, ASB negotiated with the firm based on detailed price estimates prepared by Cushman and Wakefield, a contractor hired by FDIC for that purpose at the beginning of the project. As a result, the bill was reduced by $514,120 to $2,812,000. CSB and ASB then prepared a detailed request for additional expenditure approval to increase expenditure authority for the contract to $2,812,000.

The request for expenditure approval also discussed various problems in monitoring and contract administration that contributed to the unexpected overrun of the authorized expenditure amount. These problems included the fact that pricing and cost details for the project were not monitored as closely as they should have been. The contractor did not submit cost estimates or invoices in a timely manner and unplanned costs associated with the requested changes were not identified early in the process and tracked using formal change order procedures. Prior to the issuance of the Request for Proposals and during the contract planning phase, discussions with ASB and CSB staff concluded that the contractor was to issue cost proposals for each phase of the renovation prior to commencement of work for that phase. These proposals would have provided an early indicator of potential cost increases and would have permitted CSB and ASB to seek additional expenditure approval prior to the commencement of the work. However, this language was not included in the contract. Further, Sigal did not notify FDIC when 75 percent of the approved funds had been expended as required by the contract.

Our interviews and review of project files showed that the request for expenditure approval, dated October 29, 1996, adequately documented the deficiencies in the planning and administration of the renovation project. The COO approved the procurement requisition increasing expenditure authority by $973,439 on November 14, 1996. The complainant alleged that the price negotiations were conducted to reduce the cost increases below delegation levels that would have brought it to the Chairman's attention. Our review of Corporate Delegations of Authority showed that the COO was authorized to approve noncompetitive contract modifications up to $3 million when the contract had been awarded on a competitive basis. Thus, this allegation is without merit because the COO had the delegated authority to approve the entire $1,487,559 increase originally billed by Sigal--not just the reduced billing achieved by ASB through negotiations.

Other Contracts Added Almost $1.5 Million to the Renovation Cost

The October 29, 1996, request for additional expenditure approval for the Sigal contract stated that "On a macro level, this project affected approximately 215,000 square feet of occupied space...The average cost per square foot of $13.08 is reasonable based on experience gained in previous build outs both in headquarters and throughout the country."

In our opinion, “on a macro level” implies the entire project. However, consistent with previous DOA build out cost calculations, the calculation and statement in the memorandum was based only on the Sigal contract and did not include other contractor costs that were directly related to the renovation.

We determined that the Corporation incurred an additional $1,455,840 in other contractor costs for Virginia Square, bringing the total cost of the renovation to $4,267,840. These costs, which were legitimately included in other FDIC budget line items, were for architectural services, carpeting, installation/deinstallation of systems furniture, telecommunications and other support services, and construction management and oversight. When these additional costs are included in the average cost per square foot calculation, the figure rises to $19.85 per square foot--an increase of about 52 percent. The following chart shows the expenditures on the Sigal contract and the other contracts directly related to the renovation:

Virginia Square Renovation Contractors

Vendor	Amount Paid as of 4/16/97	Percentage of Total Paid	Cost per Square Foot
Sigal			
Original Contract	$1,838,561	43	
Modification	973,439	23	
Total	2,812,000	66	$13.02
Other Budget Line Item Contracts			
GSA Schedule Carpeting	674,800	16	
AI Boggs	269,327	6	
Texel Corporation	246,734	6	
Systems Connection	184,979	4	

which resulted from the Corporation's overall downsizing. The discussions appropriately focused on what would work best for FDIC organizations, what was involved in achieving those arrangements, and how long it would take to complete the project. Senior management officials with expenditure authority for the Sigal contract were briefed on initial cost and budget considerations. Likewise, the additional expenditures related to the renovation project were monitored on a contract-by-
contract basis by those managers with delegated expenditure authority. However, DOA did not inform senior management of the total budgeted and actual costs associated with the project.

A detailed budget estimate for the Virginia Square renovation was not prepared because the renovation was a part of the larger FDIC Consolidation Plan for the merger of RTC and FDIC employees in the Washington, D.C., metropolitan area. The Associate Director, CSB told us that the Consolidation Plan was approved by the Administrative Committee in February 1995 and that the plan involved all FDIC leased and owned buildings in the Washington area. He stated that cost information was not provided in the discussion because it was too early in the process to
develop accurate cost data. DOA did not monitor expenditures by building, but monitored expenditures within each awarded contract associated with the Consolidation Plan because most
contracts covered work in multiple buildings. DOA also monitored costs by individual budget line item, such as Buildings and Improvements, under which the Sigal contract was budgeted.

Senior management was periodically briefed on the status of the Consolidation Plan, including the Virginia Square renovation. Although the Associate Director, CSB told us that potential cost and budget information was not included in the briefings, we did note that the consolidation project architect, AI/ Boggs, was designated to minimize costs to FDIC during a March 21, 1995, Transition Task Force Meeting. Also, the notes from the Virginia Square weekly coordination meetings showed several references to FDIC managers attempting to obtain cost estimates for various pieces of work before they were started. However, DOA did not accumulate and report the total costs for all the contractors involved with the renovation. Thus, when making important decisions about the renovation, senior management did not have information available to evaluate the total planned project expenditures or actual costs that were incurred.

Renovations Complied with Corporate Standards

The renovation and improvements were completed in January 1997. The renovations of office space, carpeting, and painting were in accordance with the FDIC *Facilitates Design Guide*. The OIG inspected Virginia Square in March 1997. In particular, we determined that the office sizes were within the FDIC spacing standards, and the carpeting was normal office grade carpet. During an inspection of the building, nothing came to our attention that appeared excessive or extravagant.

CONCLUSIONS

The cost increases for the Sigal construction contract were the result of requirements added after the contract was awarded. DOA documented and justified these requirements, and obtained proper authority before expending the additional funds. We found no instances in which the remodeling and improvements were above Corporate standards. Following receipt of Sigal's bill for services, DOA did take steps to ensure the Corporation received those services at fair and reasonable prices. However, as acknowledged by DOA management, the monitoring and administration of the Sigal contract could have been better. Specifically, more emphasis should have been placed on controlling the cost of the Sigal contract as construction proceeded. In that regard, officials involved in administering the contract did not report and get approval for the

additional costs under the contract before the work was started and failed to take corrective action when they did not receive timely cost proposals from the contractor.

The limited scope of our review precluded us from making any recommendations regarding FDIC's management controls over project costs. However, we found that the totality of the renovation costs was not accumulated and reported for use in the management decision process. If other contract costs, such as those for furniture, fixtures, and equipment, cabling, and carpet, are usually a significant percentage of the construction contract for a renovation project--as was the case at Virginia Square--DOA should consider including those costs in reporting renovation costs. We believe that such information would be useful to senior management for decision-making; in particular, for approving office moves and renovations.

MANAGEMENT RESPONSE AND OIG EVALUATION

We received the Corporation's response to the draft of this report on August 19, 1997. The response is presented as Appendix I to this report. The response adequately addressed the results of our review and indicated that DOA management agreed with our conclusions. The response stated that for future renovation projects, once the scope of work is well defined and detailed plans are established, they will develop cost estimates that consider all costs associated with the projects and submit that information to senior management for its consideration in approving such projects. They will also track and report all costs of the projects as they are completed to help ensure that the Corporation's actual total costs for projects are within the total estimated cost.

APPENDIX I **APPENDIX I**

CORPORATION RESPONSE

APPENDIX I

APPENDIX I